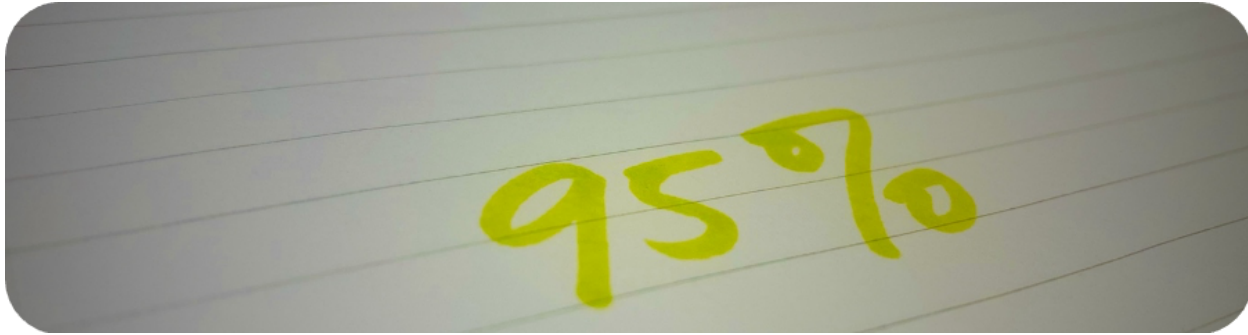


<https://tradersbulletin.co.uk/95-percent-trades/>

Apply this 95% certainty test to your trades



With so much uncertainty in global markets, wouldn't it be nice to get a green light on your trades. Obviously, we can never get 100% certainty in the markets, but 95% wouldn't be bad, would it?

I'm talking about a simple filter you can add to your trades that'll give them the thumbs up, or thumbs down – it could be the answer to boosting your success rate.

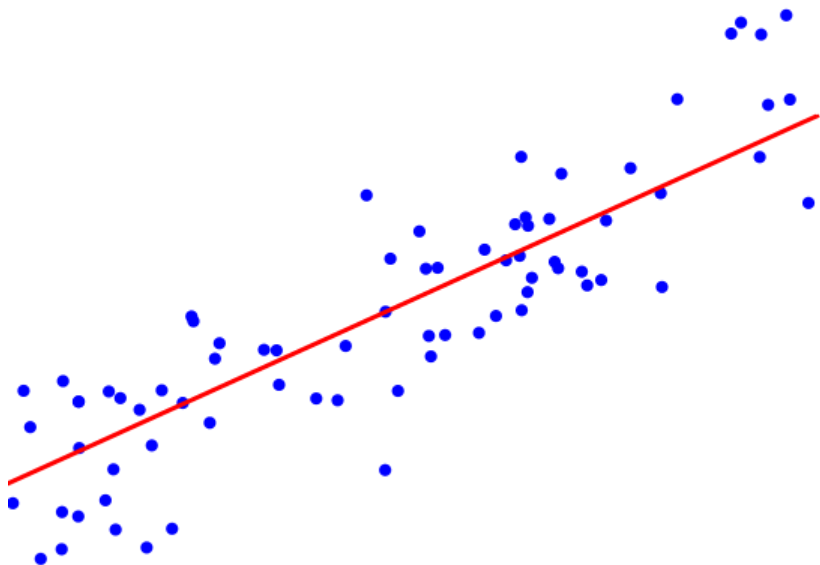
Here I'll show you exactly what this tool is, what it's telling you – and how to apply the 95% confidence check to your trades ...

Linear regression

Linear regression is a lot like a moving average, but (arguably) more accurate.

Rather than being based on an 'average' price, it's about drawing the 'best fit' line through price points.

Something like this ...



And the linear regression indicator plots this route across our charts.

The result looks a lot like a moving average, but gives a more accurate picture of price levels and is more sensitive to changes.



But that's not the indicator we'll be using – we're looking at two offshoots from this indicator.

The first is the Linear Regression Slope

This is a measure of how fast the linear regression line is moving – i.e. the angle of our slope. If the angle is steeply upwards, we'll get a high figure. If the angle is steeply downwards, we'll get a negative number; and if the linear regression line is flat, we'll get zero on the slope.



This is a useful tool and will tell us when the trend changes direction – along with which direction it's moving in.

But it's the second piece that gives us that 95% check

The R-Squared indicator tells us how far the price has moved away from the linear regression line. It's measured as 0–1, or as a percentage, from 0–100%. The closer it is to 1 (or 100%), the closer the price is to hugging that linear regression line.

The ideal for us traders is when we're in a trend with a large linear regression slope (ie the trend line is steep) AND we've a high R-squared, telling us that the price is close to the linear regression line.



How to apply the 95% check

So far we've looked at what's behind the R-squared indicator and what exactly it's telling us.

But you don't really need all that background info to run the test – you just need to run this check on your trades ...

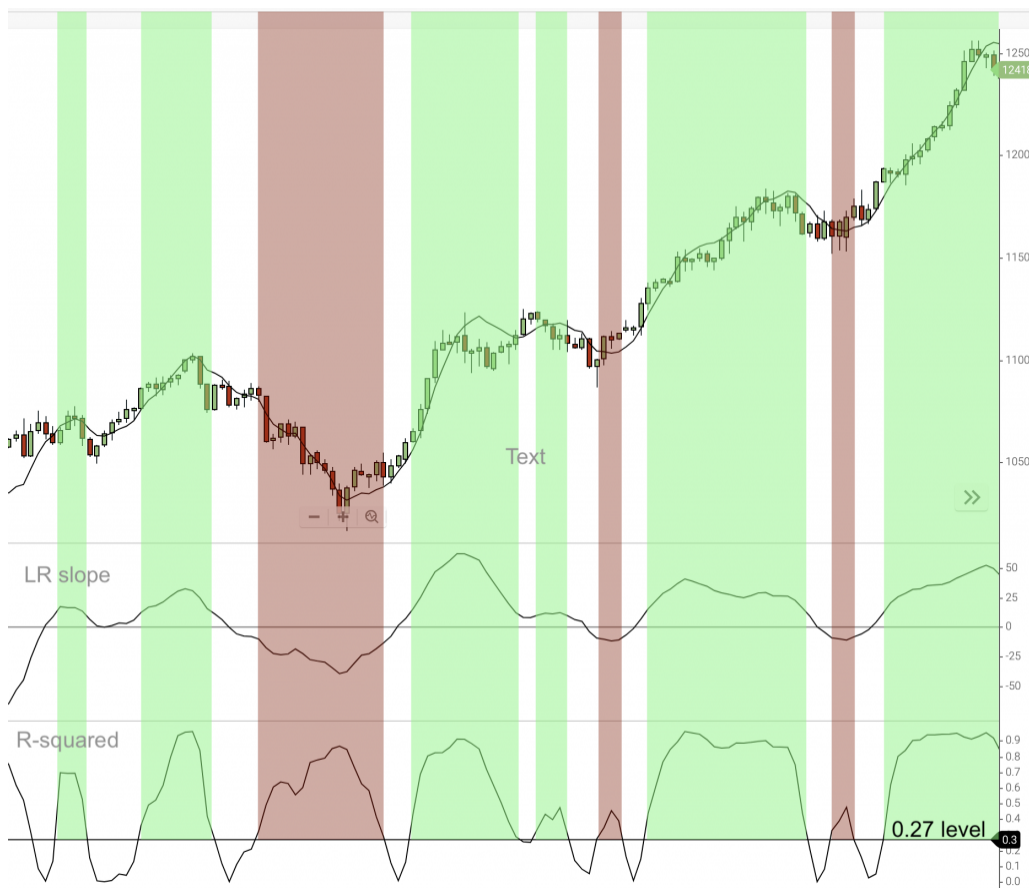
First off, check the trend on the LR slope – this'll confirm your direction.

Second, read off your R-squared level, and check it against this chart ...

Periods set on linear regression indicators	95% confidence value
5	77%
10	40%
14	27%
20	20%
25	16%
30	13%
50	8%
60	6%
120	3%

The default setting for linear regression tools is 14, so the crucial figure to be reading off our charts is 27%, or 0.27.

Here are some examples to show it in action ...

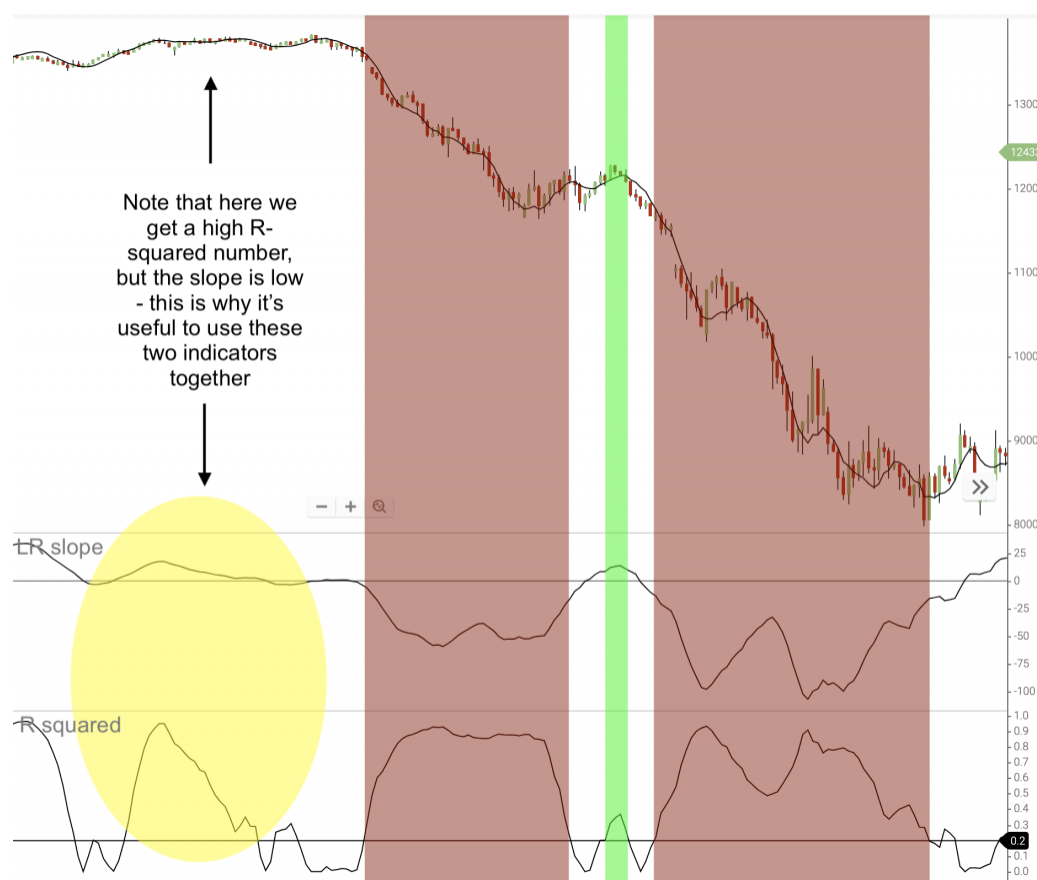


On the chart above, I've marked in green the areas where the linear regression slope is above zero AND the R-squared reading is above 0.27.

I've marked in red where the linear regression slope is below zero AND the R-squared reading is above 0.27.

It's worth remembering that this is not a signal to trade – this is a filter, which tells us that we should only be looking for buy signals in the green zone, and sell signals in the red zone.

In this next example, I've increased the period setting on the indicators to 20 – I find that 14 can be very jumpy. Therefore, the cutoff level for the R-squared 95% check is 0.20.



This shows why it's good to use the R-squared indicator in combination with the linear regression slope. In the example above, we've got a prolonged sideways period – the price is nicely aligned with the linear regression line, but it's not trending.

Again, I'll reiterate – this is an extra filter to give greater certainty to your trading signals. I recommend you try adding it to your charts to see what effect it would have on your success rate.